

AUDIT REPORT

RURAL WATER DISTRICT NO. 2,
CHOCTAW COUNTY
SWINK, OKLAHOMA

FEBRUARY 28, 2021

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RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
FEBRUARY 28, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 2, Choctaw County
Swink, Oklahoma

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements of the Rural Water District No. 2, Choctaw County, Oklahoma, (the "District") as of and for the fiscal year ended February 28, 2021, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Rural Water District No. 2, Choctaw County, as of February 28, 2021, and the changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 5, 2022, on my consideration of the Rural Water District No. 2, Choctaw County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rural Water District No. 2, Choctaw County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



April Adams CPA PLLC
Ponca City, Oklahoma

October 5, 2022

RURAL WATER DISTRICT NO. 2, CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FEBRUARY 28, 2021

	<u>2021</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 78,286
Total Current Assets	<u>78,286</u>
<u>Non-Current Assets:</u>	
Capital Assets:	
Easements and Rights of Way	227
Office Equipment	6,906
Water System	586,954
Buildings	16,600
Other Property and Equipment	52,935
Less: Accumulated Depreciation	<u>(165,250)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>498,371</u>
TOTAL ASSETS	<u><u>\$ 576,656</u></u>
<u>LIABILITIES & NET POSITION</u>	
<u>Current Liabilities:</u>	
Current Portion of Long-Term Debt	<u>\$ -</u>
Total Current Liabilities	<u>-</u>
<u>Long-term Liabilities:</u>	
Notes Payable	-
Less: Current Portion of Long-Term Debt	<u>-</u>
Total Long-term Liabilities	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
<u>Net Position:</u>	
Net investment in capital assets	498,371
Restricted	-
Unrestricted	<u>78,286</u>
TOTAL NET POSITION	<u><u>576,656</u></u>
TOTAL LIABILITIES & NET POSITION	<u><u>\$ 576,656</u></u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT NO. 2, CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2021**

	<u>2021</u>
<u>Operating Revenue:</u>	
Water Sales	\$ 79,098
Other Income	<u>-</u>
Total Operating Revenue	<u>79,098</u>
<u>Operating Expenses:</u>	
Water Purchases	29,276
Commissions	8,760
Depreciation Expense	17,192
Dues, Fees and Permits	2,988
Insurance	2,274
Legal & Professional	2,000
Office Expense and Utilities	2,372
Repairs, Maintenance and Supplies	8,561
Other Expenses	<u>1,447</u>
Total Operating Expenses	<u>74,870</u>
Operating Income (Loss)	<u>4,228</u>
Other Revenues and (Expenses):	
Interest Income	1
Interest Expense	<u>-</u>
Total Other Revenues and (Expenses)	<u>1</u>
Net Income (Loss) Before Contributions	4,229
Capital Contributions	<u>-</u>
Change in Net Position	4,229
Total Net Position, Beginning of Year	<u>572,427</u>
Total Net Position, End of Year	<u><u>\$ 576,656</u></u>

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 2, CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2021

	<u>2021</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 79,098
Payments to Suppliers and Laborers for Goods & Services	<u>(57,679)</u>
Net Cash Provided (Used) by Operating Activities	<u>21,419</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(5,000)
Capital Contributions	-
Loan Proceeds	-
Principal paid on Debt	-
Interest paid on Debt	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(5,000)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	<u>1</u>
Net Cash Provided (Used) by Investing Activities	<u>1</u>
Net Increase (Decrease) in Cash and Cash Equivalents	16,421
Cash & Cash Equivalents, Beginning of Year	<u>61,865</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 78,286</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 4,228
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	<u>17,192</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 21,419</u></u>

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

The Rural Water District No. 2 (the "District") was initially organized as an Oklahoma Nonprofit Corporation (Title 18 OS.) formed to furnish water services to members of the corporation in Southeastern Oklahoma.

The members of the corporation created a rural water district under Title 82 OS. (1324.1-1324.6) and transferred all assets and liabilities to the rural water district on April 21, 1992. The District furnishes water services to owner and occupants of land located within the water district boundaries. Revenues consist of charges for water utility services.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets

Capital assets are stated at the cost and depreciation has been computed using the straight-line method based on the estimated useful lives of the assets as follows:

Water lines and Distribution System	40 to 50 Years
Office Equipment	5 to 10 Years
Building	40 Years

Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

Effective November 1993, Rural Water District No. 2 received notification from the Internal Revenue Service that based on information supplied to them; the district is exempt from Federal Income Tax under Section 501(c) of the Internal Revenue Code. The District has not been classified as a "private foundation".

The exemption will only be recognized in years when receipts from members, for meeting losses and expenses, are at least 85 percent of total income.

The Internal Revenue Service has also advised that a Form 990, return of organization exempt from income tax, must be filed if gross receipts each year are normally more than \$25,000. The tax years 2015-2019 remain subject to examination by taxing jurisdictions, Federal and the state of Oklahoma.

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. *Net investment in capital assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted* - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted* – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

not related to capital and related financing, noncapital financing, or investing activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At February 28, 2021, the District held deposits of approximately \$78,286 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 28, 2021, was as follows:

	2/29/20 Balance	Additions	Deductions	2/28/21 Balance
Non-depreciable assets:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total non-depreciable assets	-	-	-	-
Depreciable assets:				
Water Distribution System	586,954	-	-	586,954
Building	16,600	-	-	16,600
Easements & Rights of Way	227	-	-	227
Office Equipment	1,906	5,000	-	6,906
Line Extension Costs	52,935	-	-	52,935
Total depreciable assets	658,621	5,000	-	663,621
Less accumulated depreciation for:				
Water Distribution System	(121,180)	(14,953)	-	(136,134)
Building	(1,524)	(415)	-	(1,939)
Easements & Rights of Way	(227)	-	-	(227)
Office Equipment	(1,906)	(500)	-	(2,406)
Line Extension Costs	(23,222)	(1,323)	-	(24,546)
Total accumulated depreciation	(148,059)	(17,192)	-	(165,250)
Net depreciable assets	510,562	(12,192)	-	498,371
Total net capital assets	\$ 510,562	\$ (12,192)	\$ -	\$ 498,371

NOTE 4 - LONG TERM DEBT

The District has no long-term debt.

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

NOTE 5 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at February 28, 2021, which would have a material effect on the financial statements.

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 6 - WATER PURCHASES

Rural Water District No. 2 contracts the purchase of water from the Valliant Public Works Authority, not to exceed 100,000 gallons per day. A minimum fee of \$100.00 per month is required when usage is less than the minimum \$100 cost per month. The current rate schedule follows:

The effective rate on water purchased is \$2.20 per 1,000 gallons.

NOTE 7 - RISK MANAGEMENT

Rural Water District No. 2, Choctaw County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to laborers; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 5, 2022, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 28, 2021.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water District No. 2
Choctaw County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the Rural Water District No. 2, Choctaw County, as of and for the year ended February 28, 2021, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued my report thereon dated October 5, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Rural Water District No. 2's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 2's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water District No. 2's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

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deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 21-01 that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District No. 2's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water District No. 2's Response to Findings

Rural Water District No. 2's response to the findings identified in my audit is described in the accompanying Schedule of Findings. Rural Water District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report

April Adams CPA PLLC

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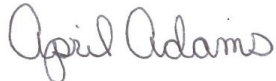
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is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April Adams CPA PLLC
Ponca City, Oklahoma

October 5, 2022

RURAL WATER DISTRICT NO. 2
CHOCTAW COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FEBRUARY 28, 2021

Item 21-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.